

5 October 1978

MEMORANDUM FOR: Associate Director-Management,
NFAC

SUBJECT :: Request to Make a Public
Appearance

1. I request approval to appear as a guest speaker at the George Washington University.
2. I have been asked by Professor John Hardt to give a lecture on Soviet balance of payments to a graduate seminar on the Soviet economy. Some 30 to 50 students can be expected to be in attendance. The talk is scheduled for early November 1978.
3. This will be the third consecutive year that I have addressed Dr. Hardt's class on this topic. As in the past I will be openly identified as a CIA employee. An outline of the proposed talk is attached. I will speak from notes but, in all likelihood, will provide some handouts too, in support of the lecture. In all instances the data will be drawn from unclassified sources.

STATINTL

[REDACTED]
Acting Chief
Trade Branch
Office of Economic Research

Attachment
Outline

STATINTL I have reviewed the attached outline prepared by [REDACTED], and found it to be unclassified.

STATINTL

[REDACTED]
Chief
USSR/Eastern Europe Division
Office of Economic Research

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SUBJECT: Request to Make a Public Appearance

CONCUR:
STATINTL

[REDACTED] 11 OCT 1978

Director of Economic Research

Date

STATINTL

[REDACTED] 13 OCT 1978
Date

Director of Security

STATINTL

[REDACTED] 13 OCT 1978

Coordinator for Academic Relations

Date

STATINTL

APPROVED:

[REDACTED] 13 OCT 1978

Associate Director-Management, NFAC

Date

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ATTACHMENT

Soviet Balance of Payments and Hard Currency Import Capacity: A Window on Soviet Economic Problems

- I. Soviet trade with the West represents a small portion of overall economic activity; nonetheless it highlights, in a highly compressed form, Soviet economic deficiencies and some of the steps taken (or not taken) by the leadership to correct them.
 - A. Moscow is constrained in its trade with the West. Soviet need for Western products seems insatiable; actual imports are constrained by the amount of foreign exchange the USSR is able to accumulate through exports, gold and arms sales, and credits.
 1. The prioritization of imports provides an indication of the most pressing needs of the Soviet economy.
 2. The desire/ability of the USSR to expand export earnings (and thus import capacity) gives an indication of Soviet commitment to expanded trade with the West as well as its ability to do so.
 - B. To the extent that trade with Eastern Europe represents an opportunity cost in terms of lost hard currency revenue it represents an economic tradeoff to the political priority attached to maintaining an hegemony over the area.
- II. The USSR is beset with a wide variety of economic problems.
 - A. It faces the prospect of a labor shortage and thus must attempt to boost labor productivity.
 - B. It is concerned about its inability to narrow the technological gap between the USSR and the developed Western countries.

- C. It is faced with a need to increase consumer welfare at a time of slowing economic growth and declining resource availability.
- D. It is increasingly aware of the inability of the Stalinist plan of material balances to handle the need for intensive economic growth occasioned by the decline in the rate of growth of labor, raw material supplies, and capital.
- E. It is concerned with the prospect of an energy shortage in the 1980s.

III. These problems are reflected in Soviet foreign economic relations with the West.

- A. The rapid growth in trade with the West in the 1970s followed the leadership decision to turn to the West in obtaining assistance in solving the above problems.
- B. The Soviet decision to embark on a policy of detente and otherwise to take related steps which, in part, eased past Western resistance to granting substantial long-term credits and/or relying upon the USSR as a long-term supplier of raw materials.

IV. An analysis of Soviet trade and payments activities provides detailed data regarding the course of action taken by the USSR.

A. Soviet balance of payments demonstrate:

- increased use of Western credit to accelerate the pace of acquisition of Western products;
- increased sales of gold to augment hard currency earnings;
- Soviet ability to capitalize on the rapid rise in energy costs to boost export earnings; and
- in recent years an overextension of efforts to rapidly boost imports to the point where Moscow cut back on imports in order to get its international payments in order.

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B. Soviet trade data demonstrate:

- that the USSR took advantage of its increased import capacity to boost imports of equipment, grain, and steel products;
- that the USSR has been unable to count on manufactured products as a viable export earner and thus has had to base its export expansion on raw material exports.

V. The current status of the USSR's foreign economic activities has some medium- and long-term implications.

- A. Compensation agreements guarantee a certain level of hard currency exports thru the 1980s.
- B. Investment in gold production and export sectors also argue for substantial exports.
- C. The level of outstanding Soviet debt will draw heavily, however, on future export earnings and in fact necessitate the export commitments stated above.
- D. The Soviet livestock program, barring favorable harvests, will depend, in part, on continued imports of Western grain.

VI. Economic forces now underway will heighten the need for high-level decisions regarding the future role of trade with the West.

- A. Moscow will have to take several steps if it desires to continue to depend on the West in solving its economic problems. In deciding on the proper course of action the leadership will weigh the costs and benefits of:
 - the past success from increased trade vs. the disappointments,
 - the likelihood that Moscow will be more successful in maximizing the gains from trade,
 - the political tradeoffs in increased trade with the West as opposed to continued heavy support to CEMA (for example by supplying Eastern Europe with oil purchased for hard currency),

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- the political control lost by restructuring domestic production facilities in order to make Soviet products competitive in Western markets and/or by allowing for foreign management control and equity participation,
- the domestic costs in developing rapidly the Siberian infrastructure so as to boost export potential, and
- the political costs involved in a greater economic dependence on the West.

B. The course of events chosen will be manifest as the following questions are answered.

1. Will Moscow become more forthcoming with respect to Western participation in resource development projects in order to accelerate the pace of domestic development of an expanded export base?
2. Will Moscow sign additional gas for pipe deals with Western Europe in order to insure an expanded export capacity in the 1980s?
3. Will the Soviets provide for new producer incentives and/or allow for Western management control of Soviet productive facilities in order to boost exports of manufactured goods?
4. Will the USSR begin again to raise the level of contracts signed with the West, indicating a decision to continue to look to the West for needed technology?
5. Will the USSR continue to take a harder line with Eastern Europe with respect to energy exports and exports of other goods which could be sold in the West for hard currency?

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